MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BME1024 – INTRODUCTORY MACROECONOMICS

(All Sections/Groups)

14 OCTOBER 2019
2.30pm -4.30pm
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 2 pages with 4 questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) Construct an example to illustrate how gross domestic product (GDP) is measured based on the output method (value added). (12 marks)

(b) Define economic growth. Explain **TWO (2)** limitations of real GDP as a perfect measure of the standard of living. (13 marks)

(Total: 25 marks)

QUESTION 2

(a) The consumer price index (CPI) is not a perfect measure of the price level as changes in the CPI may not indicate the true cost of inflation. Argue this statement with **THREE (3)** sources of bias in the CPI. (12 marks)

(b) Based on the following equations, show that the total value of saving in the closed economy must equal to the total value of investment. (8 marks)

$$Y = C + I + G + N_x,\ S_{Private} = Y + TR - C - T,\ S_{Public} = T - G - TR$$

(c) If the expected inflation rate increases by 5 percent, how do the short run and long run Philips curve change? (5 marks)

(Total: 25 marks)

QUESTION 3

(a) Based on a 45° line diagram, illustrate how macroeconomic equilibrium is determined in an open economy. (10 marks)

(b) What is recession? Draw the Aggregate Demand-Aggregate Supply (AD-AS) model and discuss an appropriate fiscal policy action that might be used by government to stabilize the recession in the business cycle. (10 marks)

(c) Consider banks receive initial checkable deposits of $50 000 and hold 15 percent as a backup before lending. Determine the maximum amounts of loan banks able to make and calculate how much money has been newly created. (5 marks)

(Total: 25 marks)

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QUESTION 4

(a) Based on an appropriate graph, explain how equilibrium is determined in the foreign exchange market. (13 marks)

(b) What is balance of payments? Describe all transactions recorded under the current account. (12 marks)

(Total: 25 marks)

End of Paper